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Case Study

Values, Mission and Investment: The Russell Family Foundation (TRFF)

The Russell Family Foundation was endowed by Jane and George Russell in 2000 upon the sale of their pioneering pension fund consulting business, the Frank Russell Company. TRFF currently has assets of approximately $150 million. The foundationÕs core values are integrity, mutual trust, constructive communications, life-long learning, and courage. The Russell Family FoundationÕs mission is to contribute to innovative community impact, build quality relationships with partners, and to maintain an outstanding work culture. In 2006, TRFF awarded grants totaling $13.5 million in three funding programs focused:

¥ Locally in Pierce County, Washington, on grassroots leadership development;

¥ Regionally in Western Washington on environmental sustainability; and

¥ Globally on peace and security.

As an entrepreneurial organization with its roots in financial services, TRFF chose to focus on the process and analytics of integrating mission-related investment into its overall strategy and operations. ÒWe understood that we would not have the most assets, but we could seek to lead by following a rigorous process and sharing this with other foundations,Ó said Richard Woo, TRFF CEO. This approach also addressed the philosophical diversity among the family and non-family board members regarding mission-related investing.

Case Study

Breaking Boundaries: The Omidyar Network

Pierre Omidyar, the founder of eBay, began his philanthropy through his private foundation and supported several entrepreneurial nonprofits. However, in 2004, he dissolved his for-profit private investment office, and combined it with his foundation. This new entity, Omidyar Network (www.omidyar.net), can fund from three sources: a for-profit entity for investments, another for-profit entity for overhead, and a 501(c)(3) non-profit entity for traditional foundation activities. The goal of the network is to align strategic philanthropy, socially responsible investing and sustainable business. Omidyar had found for-profits that advanced social goals like nonprofits, and nonprofits that earned money like for-profits, and he wanted to create a model which would allow him to effectively support these hybrid organizations.

After meeting Muhammad Yunus, the Nobel Prize-winning founder of the Grameen Bank, Omidyar became convinced that microfinance was such a business model. The Omidyar NetworkÕs major focus now is to commercialize microfinance and to have for-profit capital be a tool for good.[8]

Case Study

W.K. Kellogg FoundationÕs Mission-Driven Investments: Experiment at Scale

The W.K. Kellogg Foundation has recently announced plans to invest $100 million of its $9 billion endowment in Òmission-driven investmentsÓ in the U.S. and Africa. $25 million has been allocated to further social and economic transformation in rural southern Africa. In the U.S., Kellogg expects to concentrate its $75 million investment on vulnerable children through investments in education and small- and medium-enterprise development.

While the Kellogg Foundation has made great strides funding and supporting programs to achieve its mission and goals, its board and staff knew they could not always help their partners realize scale and sustainability solely through grantmaking dollars. Both board and staff felt they needed investment tools in addition to grants to support at least some of their partner organizationsÕ work.

W.K. Kellogg FoundationÕs Mission-Driven Investments: Experiment at Scale continued

Sufficient deal opportunities existed in a range of asset classes, everything from bank deposits to equity funds, so any investment potentially could yield both sufficient earnings and learning for the foundation.

Some three months later, the results of the scan were shared with the board. Enthusiastic about the findings, the board agreed to allocate $100 million dollars for the experiment. Upon doing so, it asked the team to continue its work. Specifically, its members sought more detail on how the plan would be implemented, including governance, management, and monitoring.

By May, the team presented an implementation plan. The plan identified an investment focus for both the United States and southern Africa, as well as corresponding criteria. Careful to focus the pilot in the early stages of its development, the plan also recommended a simple governing structure that would ensure that due diligence was applied to all deals, while at the same time enabling the team to be responsive to emerging opportunities.

From the beginning, it was decided that the project would have a three-tiered structure consisting of: (i) the Board Finance Committee charged with governance and oversight, (ii) an Investment Committee with internal and external members responsible for strategy and deal decision making, and (iii) a Portfolio Management Team responsible for deal execution and portfolio management.

The foundation wanted to be able to rapidly prototype, test and adjust its strategy based upon real-time findings. The goal was to avoid Òover thinkingÓ the process.

In terms of action goals, the foundation decided that it wanted to meet a mix of below-market and market-rate benchmarks by asset class while achieving social impact. It also said it wanted a realistic plan for evaluating the pilotÕs performance. The foundationÕs staff is currently working on formulating metrics to determine whether or not the program successfully meets both its financial and social goals.

By early 2008, the foundation hopes to open the deal flow. Overall, its leadership is optimistic about the future of mission-driven investing at the Kellogg Foundation. As one staff member said, ÒFew ideas have resonated more completely or more quickly than helping to closely connect investments to our mission. We have the potential to add a significant new tool to our social change toolbox.Ó

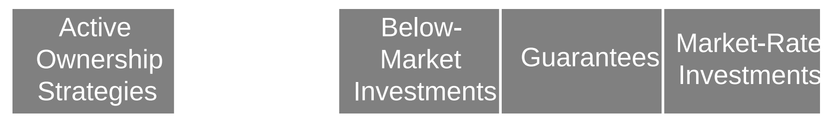
Toward that end, the Kellogg Foundation will be posting the details of its mission-driven investing plans, including deal criteria, on its website (www.wkkf.org).

W.K.K

Case Study

Educational Foundation of AmericaÕs (EFA) Old Growth Timber Campaign

The Educational Foundation of America (wwwimber Campp. 41


Active Ownership Strategies
Below-Market Investments
Guarantees
Market-Rate Investments

Market-Rate or Below-Market?

You should be clear at the beginning of your review whether a mission-related investment opportunity is market-rate or below-market. Some opportunities may arrive seeking below-market funding but which could support market-rate, or vice versa. Below-market transactions should be below-market not because the venture seeks less expensive funding or because below-market funding makes the donor feel better, but rather because the below-market funding addresses a critical funding gap, leverages additional capital, and delivers social impact. As one foundation CFO said, “Blended value can often be the refuge for underperformance.” Below-market funding and grants are the scarcest resources in the mission-related investment capital market and should be used only when they can create incremental social impact.

The F.B. Heron Foundation has quantified the opportunity cost due to below-market pricing at 30-50 basis points of its overall portfolio return. They believe that this cost is justified given the fact that $1 of below-market funding from Heron will typically leverage $12 of capital from other sources. In addition, the below-market portfolio has very low volatility due to its lower correlation to market-rate investments.

Active Ownership Strategies

Screening

Guarantees

Market-Rate Investments

Case Study

Packard PRI Loan Launches Sustainable Seafood Private Equity Fund

The David and Lucile Packard Foundation (www.packard.org) has long been working to restore health to the worldÕs endangered oceans, both through grants and program-related investments. A study by the Food and Agricultural Organization of the United Nations found that 60% of the worldÕs important fish stocks are Òin urgent need of managementÓ to rehabilitate them or keep them from being overfished. Nevertheless, as consumers, we receive little information about the seafood we buy. Although there is growing consumer demand for sustainable seafood products, the missing link in the supply chain is at the distribution level between the fishermen and consumers. ÒWe found that while there were fishermen who would go out and fish sustainably, the distributors would just dump it all in with what a trawler caught, decimating the seas,Ó said Curt Riffle, program operations manager at Packard.

The Sea Change Investment Fund (www.seachangefund.com) was launched in 2005 to address this gap in the market. Packard saw that it could not achieve its program goal of altering market behavior solely through grants. Sea Change has total assets of $20 million with half coming from a PRI loan from Packard and the other half from private investors. Packard made its $10 million loan to encourage other investors. ÒWe also used the Packard FoundationÕs commitment to go out to the investors, to convince them we were serious. We didnÕt want a grant to do this, because we didnÕt want to say that weÕve been capitalized on the basis of a gift or giveaway that weÕre not accountable for,Ó said Jason Winship, Managing Principal at Sea Change. The PRI loan will be repaid from fund proceeds prior to any distributions to the other investors.

Any company under review for a Sea Change investment undergoes a two-level process. A nine-member conservation committee, staffed by leaders in conservation and fishery science, determines if the potential investment meets the sustainability criteria. If the conservation committee does approve, the investment candidate moves on to an investment committee with four members from commercial and financial backgrounds similar to those of traditional venture capital firms. To date, Sea Change has made early stage equity investments in four companies. The companies must agree to explicit environmental covenants regarding their ongoing operations. Sea ChangeÕs double-bottom line approach hopes to deliver results by making sustainable seafood mainstream.

Active Ownership Strategies	Screening	Below-Market Investments	Market-Rate Investments

Case Study

The KL Felicitas FoundationÕs Due Diligence Toolkit

The KL Felicitas Foundation (www.klfelicitasfoundation.org), a California-based family foundation, was established by the Kleissner family in 2000. The foundationÕs mission is to:

¥ Enable social entrepreneurs worldwide to develop and grow economically sustainable, scalable enterprises with high measurable social impact;
¥ Empower rural communities and families through sustainable economic and social change; and
¥ Advocate our foundationÕs leveraged mission, program and sustainability investment strategy.

To supplement their program activities, the Kleissners have developed a sustainability, mission, and social investment (SMSI) strategy. In their work with social entrepreneurs, they found a funding gap between grants and commercial finance. These SMSI investments are an overlay to their total asset allocation rather than a separate asset class. They target financial returns approximating the average risk-adjusted returns of similar investments made without regard to social, mission, or sustainable considerations. The only exception is program-related investment which can be up to 5% below the expected risk-adjusted return.

The Kleissners seek to ultimately incorporate most of their assets into the SMSI framework, not just their philanthropic entities. In conjunction with their advisors, the foundation has developed a series of MRI and PRI worksheets including due diligence and documentation checklists, and financial analysis templates which are included in Appendix 3 and are also available at www.klfelicitasfoundation.org.

Additional templates for Mission-Related Investment Due Diligence are available to members of the PRI Makers Network at www.primakers.net.

Case Study

PackardÕs Credit Enhancement of LIIFÕs Initiative for Childcare in California

The Low Income Investment Fund (LIIF) (wwwliifund.or g) provides affordable capital and technical assistance to organizations working to alleviate poverty in low income neighborhoods. LIIF manages the Affordable Building for ChildrenÕs Development (ABCD) Initiative Ñ a statewide effort in California to provide finance, technical assistance, construction advice and advocacy to the underfunded preschool childcare sector.

The David and Lucile Packard Foundation (wwwpackard.org) has committed $14.5 million in grants and PRIs to LIIF for ABCD. This includes a $1 million Packard PRI which LIIF was able to leverage with $10 million in private sector capital from Impact Community Capital (wwwimpactcapital.net), a consortium of insurance companies using the New Markets Tax Credits program. The Impact Community Capital investors bear some governmental appropriations risk since the childcare facilities receive public operating support as well as refinancing risk from the partially amortizing loans to the facilities. However, Packard provided an innovative credit enhancement to the private investors to cover a portion of any losses on the pool of loans to the childcare facilities. The ABCD initiative leverages significant public funding as well.

Developers of new buildings are now coming to LIIF for its expertise in incorporating childcare facilities into their plans. LIIF would like to use the ABCD Initiative as a model for other states seeking to build sound financing models for childcare facilities. The ABCD Fund has committed 16 loans totaling $6.9 million and 20 planning grants. This financing will support over 2,700 quality childcare spaces. In total, the ABCD Fund hopes to assemble $30 to $40 million in a combination of private capital and philanthropic investments to finance up to 10,000 childcare spaces in California.

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Mission-Related Investment (MRI) Evaluator

Investment Name: ____________________

Investment Amount Considered: $ ____________________

Investment Due Diligence by: ____________________

Signature: ____________________

Date: ____________________

Mission Due Diligence by: ____________________

Signature: ____________________

Date: ____________________

Summary Description of Investment:

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Main Contacts:

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Supporting Documents:

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Mission-Related Investment (MRI) Evaluator

Focus Area & Questions	Other Considerations	Score -1/0/+1
Investment Due Diligence (Investment Advisor)		
Investment Structure & Portfolio Implications		
Question 1: What investment due diligence process will be required to assess the financial viability of this opportunity?	FoundationÕs Investment Advisor responsible for performing financial due diligence process.	
Question 2: What is the structure of the investment under consideration? a. Is the investment structure ideally suited to achieve both the appropriate risk adjusted rate of return and Mission Impact?	Direct public or private, Fund or Fund of Funds. Consider struc-tureÕs ability to offer sufficient or appropriate diversification to mitigate risk. Consider investment cost structureÕs implication on Mission Impact.	
Question 3: What is the asset class? a. Does the investment fall outside the currently established asset allocation targets of the Foundation? b. If so, has the appropriate analysis been completed to evaluate a change in targets? c. Has this change been accepted and adopted under the investment policy guidelines of the Foundation?	While it is the intent of the Foundation to pursue MRIs, there is also a firm commitment to remain within the established investment policy guidelines and risk budget.	
Question 4: Will members of the Foundation play an active role in the investment? a. If so, will questions of self-dealing arise? b. Should the investment be considered in conjunction with a Foundation grant? c. Outside the Foundation?	Consider additional Mission Impact, regulatory concerns or sizing constraints.	

Mission-Related Investment (MRI) Evaluator

Focus Area & Questions	Other Considerations	Score -1/0/+1
Investment Due Diligence (Investment Advisor) continued		
Investment Monitoring & Reporting		
Question 5: What is the financial benchmark that will be used to evaluate this investment? a. Over what period(s) of time will we measure the investment performance?		
Mission Due Diligence (Foundation Directors & Philanthropic Advisors)		
Mission Alignment		
Question 6: How does this investment align with the Mission of the Foundation? a. In what area(s) does the Foundation believe this investment will contribute the greatest degree of Mission impact?		
Question 7: Are there any Outside the identified funds Foundation?we n w(ava)		
Relationship & Reputation		

Mission-Related Investment (MRI) Evaluator

Focus Area & Questions	Other Considerations	Score -1/0/+1
Mission Due Diligence (Foundation Directors & Philanthropic Advisors) cont.		
Relationship & Reputation continued		
Question 9: Have other foundations or investors recognized this as an MRI or social investment? a. Do other respected partners of the Foundation have a relationship with or experience with this investment?	Capture any peer or trusted partner knowledge on the investment.	
Question 10: How integral to the success of the investment is the Mission Impact? a. How much personal financial capital have the investment principals and/or founders committed to the investment?	Identify alignment of inter est by investment principals and/or founders.	
Mission Impact Monitoring & Reporting		
Question 11: What approach will be used to evaluate the Mission Impact of the investment? a. What is the proposed nature and scale of the Mission Impact, e.g. in 1 year, 3 years, long term?	Pre-established metrics and evaluation intervals for Social or Mission Impact should be requested or developed.	
Question 12: Will the Investment Manager provide Mission related reporting?	Once Mission criteria are established it is important to communicate with the Investment Manager and determine if the criteria can be met.	
Question 13: Does the investment scale, accelerate, support or re-enforce other SMSIs in the investment or grant portfolios?	Identify those that will be impacted and evaluate excess or leveraged Mission Impact.	

Mission-Related Investment (MRI) Evaluator

Additional Comments or Observations

© Racel Pomares 2008; additional contributors Doug Bauer of Rockefeller Philanthropy Advisors and Charly and Lisa Kleissner of the KL Felicitas Foundation.

Focus Area & Questions	Other Considerations	Score -1/0/+1

Program Due Diligence (Foundation Directors & Philanthropic Advisors) cont.